Appendix H

LOW INCOME HOUSING TAX CREDIT

Program Description

As part of the Tax Reform Act of 1986, the United States Congress created the Low-Income Housing Tax Credit (LIHTC) (IRC Section 42) Program to promote the development of affordable rental housing for low-income individuals and families. To date, it has been the most successful rental housing production program in Arizona, creating thousands of residences with very affordable rents. The Low-Income Housing Tax Credit, rather than a direct subsidy, encourages investment of private capital in the development of rental housing by providing a credit to offset an investor's federal income tax liability.

How Tax Credits Work

A low-income housing tax credit is a dollar-for-dollar credit against the federal income tax liability of the owner (developer or investor) of a low-income housing development. Tax credits that are allocated to a development are claimed in equal amounts for a 10-year period. The rental property generating the credit must remain in compliance with the program guidelines and rent restriction requirements for a period of not less than 30 years from the first taxable year of the credit period.

The amount of tax credits available for allocation each year by the Arizona Department of Housing (ADOH) is established pursuant to certain requirements of the Internal Revenue Code. Tax Credits are awarded for specific developments pursuant to ADOH's LIHTC Qualified Allocation Plan. Tax Credits must be allocated by ADOH to a specific development in order for such credits to be claimed by the developer or investor. The procedures followed by ADOH in awarding credits are described in the current Qualified Allocation Plan (QAP).

Eligible Developments

In order to be considered for Tax Credits in Arizona, the proposed development must involve new construction, substantial rehabilitation or acquisition and substantial rehabilitation.
A development qualifies for low-income housing tax credits if it is residential rental property and meets one of the following requirements:

- At least 20% or more of the residential units in the development are both rent restricted and occupied by individuals whose income is 50% or less of the area median gross income (AMGI)*, or

- At least 40% or more of the residential units in the development are both rent restricted and occupied by individuals whose income is 60% or less of the area median gross income (AMGI)*.

Tax Credits may only be claimed on units that have been set aside for participation under the program. Since Tax Credits are awarded on a competitive basis, ADOH's Qualified Allocation Plan (QAP) encourages "targeting" of the units to income levels lower than the federal limits described above.

* The median income tables are established and adjusted annually by HUD.